

Testimony to US Senate Finance Committee

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Chuck Merja,
Sun River, MT

Mr. Chairman, my name is Chuck Merja. I am a wheat farmer from Montana, and it is indeed a great honor to be asked to the first hearing of your chairmanship of the Senate Finance Committee. As a Montanan, I am very proud to have you as our senior senator and now as chairman of this important committee.

Thank you for inviting me to testify before you regarding Trade Promotion Authority (TPA); there is not a more important topic for agriculture in today's world. I was president of both the Montana Grain Growers Association in the early 90s and also the National Association of Wheat Growers in 1996, however, I am here today to articulate my views, which are not necessarily the official position of any organization.

As much as I'd like to share my ideas about world agricultural trade with you, I must admit we are still living in an Olive tree world, with the exception that today even we Montana farmers can learn pretty easily how we are being out maneuvered in world markets.

Mr Chairman and members of the committee, fair trade is a very important issue to virtually all of US agriculture. We need to act quickly to reinstate Trade Promotion Authority (TPA). The US needs to be actively engaged in regional and world trade negotiations, however, our past methodology is not good enough today. Instead of giving carte blanche negotiating authority to the Administration, I would strongly recommend a bipartisan agreement between Congress and the Administration which gives the Administration negotiating authority, and which also lays out negotiating objectives, along with a process whereby we can evaluate whether or not those objectives are being met. We will be challenged to reach agreement about goals and a process of evaluation this year, but we must. To delay approval of TPA beyond this year puts us in danger of having the process unduly influenced by the politics of an election year.

We must limit the scope of the TPA to trade issues, but please recognize that for agriculture, competitiveness issues are trade issues. If our producers don't have a way to differentiate our products grown under more stringent environmental regulations, or don't have access to production methods that our competitors can use, it is arrogant and inaccurate to think that US producers will hold any competitive advantage in the world markets, including our own.

Mr Chairman, I remember a group of us sat down with you at the Great Falls airport about 16 years ago, and discussed US wheat farmer competitiveness and free trade. The context for this discussion was the question of entering trade negotiations, and including agriculture in those negotiations for the first time. I remember you asked us if we thought we were competitive with the rest of the world with respect to wheat production. And I remember we said, yes.

Since that time of naivete, I've learned quite a bit and appear before you today as one who would characterize himself as an immersed pragmatist. I'm immersed, because for us Montanans to eat

our wheat crop, in state, each of us would have to eat a hundred thousand bagels a day, every day of the year. And while I try to do my part, as a state, we just aren't up to the task, so we need to look for markets outside the state and country. And in fact, 80% of Montana wheat and about half of the entire US wheat crop are exported every year, so we are very dependent upon an open and fair trading system in the world.

I'm a pragmatist, because after all the rhetoric and hoopla about free trade, a level playing field, knock down trade barriers, no agreement is better than a bad agreement, etc., the simple fact of the matter is that US wheat producers hold a smaller share of the world wheat market today than they did when we put CUSTA, NAFTA or WTO into place roughly ten years ago. And the EU, which by all measures has the highest cost of production of the 5 major wheat exporters in the world, has gone from being a wheat importer roughly a quarter century ago, to the position of now holding the largest market share of world wheat trade. They did so, not through being the most competitive, as one would expect in a system of fair trade, but through shrewd negotiation and intractable focus on gaining market share. And we let them! In fact, recently, we caught the EU using export restitutions on their wheat, which that day made their wheat the cheapest in the market place, and priced just under our transparently priced soft red wheat, and we refused to use our WTO negotiated-for export subsidies to regain the competitive advantage that our producers should naturally enjoy in the world market.

In the above mentioned trade agreements, we institutionalized some things that the professionals and academicians now call "trade irritants," but I call a significant impact on my livelihood, and I believe those trade irritants will be very hard to change. But it is exactly those items which need to be on our list of objectives. If we can negotiate a more level playing field, I believe that US agriculture can compete favorably for world markets. But that system must be substantially better than it is now, or we will see a smaller agriculture sector here, which has ramifications on balance of trade, GDP, jobs etc. And that impact can be huge in states like ours, Mr. Chairman, because we are so dependent upon agriculture.

Some of the more absurd situations that have occurred since we negotiated the first steps toward discipline in agriculture are:

- At the time of record high US producer owned inventories of wheat, Canada still pushes the equivalent of 100% of the US durum carryout and 1/6th of the US spring wheat production into the US, right into or through our primary production areas for those crops. Furthermore, those crops have crop protection products used to produce them that are identical or analogs to products used here, but are not registered for use here. Many of these products are priced at 40% to 60 % of the products found here, giving foreign producers just a few miles away from our producers a significant competitive advantage. Even though we agreed to harmonize these products a dozen years ago, we haven't, and in fact, EPA enforces chemical companies' marketing plans by putting US producers who try to use these products in jail.
- We allow Canada to call their initial price to producers the "acquisition price", thus making it difficult for us to make the case that the Canadian Wheat Board sells below

cost, even though the initial price is only a fraction of what the CWB pays Canadian growers for the wheat they deliver.

- We allow livestock raised in Canada, but shipped and slaughtered here to get a USDA stamp, and be void of any country of origin labeling, so consumers can make an informed choice.
- As mentioned above, we allow the EU to use export restitutions, and don't use our own GATT-legal subsidies to help counteract their effects. Only when EU subsidized barley actually made it to the shores of California a couple years ago, did we have even a measured response. Other than this barley example, I believe that July 1995 was the last time we used our Export Enhancement Program to counteract other export subsidies in the market place. Several of our economists have claimed that there was little additional to be gained from the use of EEP, but they missed the whole point of EEP being a political tool as well as what it was originally designed for, namely export enhancement. Maybe we need a little different incentive plan for those economists; one where their fortunes rise and fall with the agriculture sector they analyze. This might help them understand the political component of our export tools.
- We don't pay much attention to the fact that Argentine soybean farmers, whose currency is at about par with the US dollar, have access to seed at \$8 per bag and herbicides at \$8/gal, while US producers pay \$40 per bag for the same seed technology and \$35 per gallon for the same herbicide active ingredient. Not only will this have a major impact on soybean producers here, but wheat is a rotation crop for those Argentine soybean producers, and this will put US wheat producers at a competitive disadvantage too. Several ag writers have recently commented that \$6 soybeans are a relic of the past because of this competition - \$4 wheat might be too.
- Canada controls over half of the world spring wheat and nearly 80% of the world durum trade, so they can have a real market dominance. But the CWB has standing offers in many wheat markets at \$5-7 per ton below the best price obtainable from the US. This discounting strategy from such a huge player accelerates the race to the bottom in world wheat prices and negates years of work to differentiate wheat quality by many wheat producers from around the world.

The U.S. wheat industry has a long list of issues that need to be addressed in a comprehensive round of the World Trade Organization, some of which were pointed out by the above examples. Here is a partial list of issues the wheat industry needs addressed to be competitive in the future:

- ▶ Maintaining our trade law framework, which will allow us to react more quickly to trade distorting issues, and/or a thorough revamping of WTO procedures to allow fast, objective problem resolution;
- ▶ Resolving cross border price differentials for production inputs such as pesticides;

- ▶ Ending the anti-competitive practices of export state trading enterprises;
- ▶ Elimination of export subsidies;
- ▶ Elimination of trade distorting domestic supports;
- ▶ Increasing market access through the elimination or equalization of tariffs, disciplines on the administration of tariff rate quotas and eliminating price band systems;
- ▶ China's import/export control entity:
- ▶ Export credit and food aid programs must not be treated as trade distorting export subsidies.

The current agriculture negotiations in the WTO and negotiations for a Free Trade Area of the Americas underscore the importance of trade agreements to ensure that Americans have the same access as our competitors to the 96% of the world's consumers who live beyond U.S. borders. The ability of our negotiators to achieve market access and competitive competition agreements in turn hinges on the will of Congress to renew TPA.

While we are on the sidelines, our competitors continue to gain the upper hand in international markets. For example:

- ▶ The European Union has achieved an interim trade agreement with Mexico and moved toward formal negotiations for free trade agreements with Chile, Argentina, Brazil, Paraguay and Uruguay.
- ▶ FTAA negotiations have begun, but other countries in the hemisphere continue to insist that without TPA they will be hard pressed to make politically difficult decisions to open their markets. There is no reason to think that our trading partners to the South will not move forward to create more trade deals that exclude the United States.
- ▶ Canada is capitalizing on the competitive advantage provided by their free trade agreement with Chile. Canada is accelerating efforts to negotiate preferential access to markets in Northern Europe and throughout South America. Canada continues to hold its agriculture sector outside the terms of these agreements to maintain its protectionist supply managed practices.
- ▶ Mexico is expanding its free trade arrangement with Chile and continuing to negotiate trade agreements with countries in Central and South America, Japan and the European Union.
- ▶ Argentina as a member of the South American trading block MERCOSUR, receives preferential treatment in exporting wheat to Brazil, one of the largest wheat importers in the world.

So as you can see by these examples, we definitely have items to correct from the last round, we have issues to deal with prospectively, and we are being left out of current bilateral and multilateral negotiations. Therefore, I urge you to work with agricultural organizations in resolving the many challenges facing U.S. producers by approving a workable TPA. This action will direct the Administration to meet these challenges head on, and show the world a united front from the United States, thus giving the Administration significant negotiating clout.

Trade Promotion Authority is critical to the U.S. role as a credible leader in advancing trade liberalization and opening markets for all sectors. This authority must be based on sound principles that protect current markets and lead to greater market access and competitiveness for American agriculture.